

JORDAN

The Department of State submitted this report to the Senate Committees on Foreign Relations and on Finance and to the House Committees on Foreign Affairs and on Ways and Means, on January 31, 1999.

Key Economic Indicators
(Millions of U.S. Dollars unless otherwise indicated)

	1996	1997	1998	1/
<i>Income, Production and Employment:</i>				
Nominal GDP 2/	6,713	7,049	7,437	
Real GDP Growth (pct) 3/	0.8	2.2	0.5	
GDP by Sector:				
Agriculture	227	213	N/A	
Manufacturing	745	807	N/A	
Services	1,242	1,332	N/A	
Government	1,166	1,241	N/A	
Per Capita Nominal GDP (US\$) 4/	1,510	1,533	1,555	
Labor Force (000s)	994	1,024	N/A	
Unemployment Rate (pct) 5/	11.3	13.2	N/A	
<i>Money and Prices (annual percentage growth):</i>				
Money Supply Growth (M2) 6/	0.3	7.8	5.0	
Consumer Price Inflation	6.5	3.0	5.0	
Exchange Rate				
Official (JD/US\$ annual average)	0.709	0.709	0.709	
<i>Balance of Payments and Trade:</i>				
Total Exports FOB 7/	1,816	1,835	1,750	
Exports to U.S. 7/	26.3	26	13.8	
Total Imports CIF 7/	4,291	4,100	3,957	
Imports from U.S. 7/	416	388	301	
Trade Balance 7/	-2,475	-2,265	-2,207	
Balance with U.S. 7/	-389.7	-362	-287.2	
Current Account Deficit/GDP (pct) 8/	3.3	-0.42	1.1	
External Debt Outstanding	7,277	7,070	7,108	
Debt Service Payments/GDP (pct)	14.1	12.2	N/A	
(Commitment Basis)				
Debt Service Payments/GDP (pct)	8.6	7.5	N/A	
(Cash Basis)				
Fiscal Deficit/GDP (excluding grants) 9/	-7.7	-5.3	-9.6	

Fiscal Deficit/GDP (including grants) 9/	-3.1	-0.8	-5.7
Gold and Foreign Currency Reserves 10/	1,956	2,400	N/A
Official Foreign Currency Reserves	697	1,693	N/A
Aid from U.S. 11/ 12/	224	180	192
Aid from All Other Sources 12/	86	137	N/A

1/ Source: Central Bank of Jordan's (CBJ) Monthly Bulletin, October 1998. FY 1998 estimates are based on CBJ 1998 projections, 1997 Annual Report; embassy projections for exports and imports to/from U.S. are based on 8 months of U.S. Commerce Department statistics.

2/ FY 1998 estimates range between 5 to 6 percent; the average of 5.5 percent has been applied for calculation purposes.

3/ Percentage changes calculated in local currency.

4/ Based on population growth rate of 4 percent and nominal GDP growth rate of 5.5 percent.

5/ Official government estimates for entire Jordanian and foreign population; official unemployment rate for Jordanian population is 14.4 percent for 1997 (unofficial estimates range up to 27 percent).

6/ FY 1998 domestic liquidity estimated to grow at 7 percent over 1997 figure.

7/ Merchandise trade; exports and imports on customs basis; exports to U.S. based on Commerce Department figures.

8/ FY 1997 figure is in surplus.

9/ FY 1998 figure takes into consideration sale of the government's 40 percent stake in Jordan Telecommunication Company (currently suspended) and a stake in Jordan Cement Company (30 percent recently sold to French strategic partner). Without JTC revenue, deficit may reach 8 percent of GDP.

10/ Represents net foreign exchange reserves plus gold; FY 1998 banking system net foreign assets estimated to grow at 11.6 percent over 1997 figure.

11/ FY 1996 includes \$100 million of military equipment transfers; figures exclude credit guarantees.

12/ Includes economic and military assistance.

1. General Policy Framework

Jordan's economy has grown slowly in recent years, due in part to a weak regional economy and political events in neighboring states that have disrupted trade. With a per capita Gross Domestic Product (GDP) estimated at approximately \$1,500 and a population of approximately 4.5 million, Jordan's economy is relatively small for the region and largely dependent on trade and remittances rather than industry.

The government is attempting to attract investment and offers significant incentives to businesses wishing to establish operations in Jordan. The U.S. and Jordan have signed a Bilateral Investment Treaty, which protects investors and establishes procedures for resolving investment disputes. A Trade and Investment Framework Agreement is also in the final stage of negotiations.

In June 1998, the government revised its growth figures for 1996 and 1997 downward. Preliminary data indicates real growth in 1996 was nearer to 1 percent than the 5.4 percent originally claimed, and 1997's real growth estimate is now 2.2 percent, down from 5.2 percent. The estimate for real growth in 1998 is 0.5 percent. The fiscal deficit for 1998 could approach 9.4 percent, significantly above the IMF target of 3.0 percent. The government covers its fiscal deficit through borrowing and foreign grants.

Jordan is in the process of acceding to the World Trade Organization (WTO), but is not likely to gain membership until at least the year 2000. In addition, it has partially privatized the state-owned Jordan Cement Company and has taken preliminary steps to privatize the Aqaba railway. This could inject much-needed revenue into the government's coffers. However, the Jordan Telecommunications Company privatization has been postponed, and progress on other privatizations has been slow.

The United States has offered unique trade benefits to Jordan through the designation of a "Qualifying Industrial Zone" (QIZ) in Irbid, which allows duty-free entry into the U.S. for QIZ-produced goods. Two other potential QIZs, one a privately-owned industrial park on the Israel/Jordan border near the Sheik Hussein Bridge, and the other near Mafraq, are in the planning stage.

2. Exchange Rate Policy

The Central Bank of Jordan (CBJ) regulates foreign currency transactions in Jordan and sets the exchange rate. The dinar-dollar fixed rate was instituted on October 23, 1995 at 0.708 (buy) and 0.710 (sell) dinar to the dollar (approximately \$1.40 to the dinar). The dinar fluctuates against other currencies according to market forces.

The year 1997 marked a significant liberalization of the foreign exchange market. All restrictions pertaining to the inflow and outflow of foreign currency (including gold) were rescinded. The Jordanian Dinar (JD) was made fully convertible for all commercial and capital related transactions. Foreign currency is obtainable from licensed banks at the legal market clearing rate, which is the CBJ's official rate. It is anticipated that the JD will remain pegged to the dollar at an exchange rate of approximately \$1.41 to the JD, in light of the central bank's commitment to maintaining exchange rate stability.

Money-exchangers operate under central bank supervision and are free to set their own currency exchange rates. Money-exchangers, unlike banks, do not pay CBJ commission fees for every exchange transaction, which gives them a competitive edge over banks.

Under the new Foreign Exchange Regulations of 1997, banks no longer require prior CBJ approval for the incoming and outgoing transfer of funds from either resident or non-resident accounts (including investment related transfers). Banks, however, ultimately report all foreign currency transactions to the CBJ. Banks are permitted to open non-resident accounts in JD and/or foreign currency.

However, the CBJ requires banks to submit non- resident supportive documents on behalf of their foreign clients every three years. Otherwise such accounts will be converted to resident foreign currency accounts. Non-resident foreign currency accounts are exempted from all transfer-related commission fees charged by the central bank.

Banks may buy or sell an unlimited amount of foreign currency on a forward basis. Banks are permitted to engage in reverse operations involving the selling of foreign currency in exchange for JD on a forward basis for the purpose of covering the value of imports. There are no restrictions as to the amount resident account holders may maintain in foreign currency deposits. Ceilings related to amounts residents are permitted to transfer abroad have been scrapped.

3. Structural Policies

Although enjoying U.S. Generalized System of Preferences (GSP) and Most Favored Nation Status, Jordan does not provide reciprocal treatment of goods imported from the United States. Most imports into Jordan are subject to tariffs and duties, while industrial raw materials and capital equipment imported by licensed industrial projects may be exempted. The ceiling on all duties is 40 percent. Most additional customs taxes, fees and duties on regular imports have been abolished. However, luxury goods and automobiles are still assessed additional sales taxes, fees and duties.

The Kingdom's Income Tax Law imposes a 35 percent maximum marginal rate. Taxes on individual incomes vary between 5 percent (for annual incomes less than \$3,000) and 30 percent (for annual incomes exceeding \$22,500). Corporate taxes are set at 35 percent for banks and

financial institutions and 25 percent for companies engaged in brokerage and agency activities. The law exempts re-invested profits and profits earned on exports from income tax.

Current law imposes an across-the-board 10 percent sales tax. However, the sales tax may reach 20 percent on certain luxury items, such as cigarettes and alcohol. The law exempts exports from the sales tax and empowers the Council of Ministers to impose additional sales taxes to compensate for revenue losses from reduced customs duties on goods and services subject to the sales tax. After reducing the duties on all imports, including automobiles, to no more than 40 percent, the Council of Ministers imposed an additional sales tax on imported automobiles ranging from 39 to 141 percent. The result is that there has been no positive change in Jordan's tax regime towards U.S. automobile imports. Almost all types of professional, business and legal services are also subject to the ten percent sales tax.

4. Debt Management Policies

Jordan's outstanding external public debt as of April 1998 was approximately \$7 billion, according to the IMF. Jordan rescheduled \$400 million in debt to Paris Club creditors in May, 1997, easing repayment pressure. The ratio of debt service to exports of goods and non-factor services has been decreasing since 1993, dropping from 35.9 percent in 1993 to 24.1 percent in 1997, according to the central bank. Approximately 28 percent of Jordan's external debt is to multilateral institutions, while its largest bilateral creditors are Japan, France and the United Kingdom.

The IMF, in one possible scenario, projects that Jordan's debt service may balloon from approximately \$800 million in 1998 to over one billion dollars in the year 2002. This is a major issue to be addressed as the government negotiates a new IMF structural adjustment program to replace the current one, which expires in February 1999.

5. Aid

In fiscal year 1998, USAID's economic assistance program to Jordan totaled \$150 million. In addition, the U.S. provided \$50 million in Foreign Military Financing (FMF), \$1.6 million in International Military Education and Training Program (IMET) funds, and \$25 million in drawdown of excess defense articles. Jordan also received \$15 million in PL-480 soft loans, and was eligible for \$40 million in GSM 102 loan guarantees. USAID's economic assistance program for FY 1999 is expected to be \$150 million. The U.S. Government will also donate wheat to Jordan under the Section 416(b) program valued at approximately \$14 million.

6. Significant Barriers to U.S. Exports

Import Licenses: Import licenses are generally not required. Small import shipments up to JD 2000, or approximately \$2800, do not require licenses. Approximately 40 special items do require prior clearance. Imports from Syria, Lebanon, Saudi Arabia, Iraq, Yemen, Bahrain, Libya,

Morocco, Sudan, Tunisia, Kuwait, the Palestinian National Authority, Oman, Egypt, United Arab Emirates and Israel require licenses because they have bilateral trade protocols with Jordan.

Services Barriers: Jordan is not yet a member of the WTO, but has applied for membership and begun accession negotiations. Foreign suppliers of services do not receive Most Favored Nation (MFN) or national treatment. Almost all service industries are affected by market-entry barriers.

Standards, Testing, Labeling, and Certification: Except for pharmaceuticals, which are handled by the Ministry of Health, the Jordanian Standards and Measures Department is responsible for most issues related to standards, measures, technical specifications and ISO certification. Imported products must comply with labeling and marking requirements issued by the Standards and Measures Department and relevant government ministries. Different regulations apply to imported foodstuffs, medicines, chemicals and other consumer products. Jordanian importers are responsible for informing foreign suppliers of any applicable labeling and marking requirements.

Investment Barriers: The United States and Jordan signed a Bilateral Investment Treaty in July 1997. The current Investment Promotion Law is designed to promote both local and foreign investment and to encourage the formation of joint ventures and multinational enterprises in Jordan. Most important to U.S. business, the law provides equal treatment for foreign and Jordanian investors. Restrictions on foreign investment remain in four sectors: media, construction, trade and commercial services and mining.

Government Procurement Practices: With few exceptions, government purchases are made by the General Supplies Department of the Ministry of Finance. Foreign bidders are permitted to compete directly with local counterparts in international tenders financed by the World Bank. However, local tenders are not directly open to foreign suppliers. By law, foreign companies must submit bids through agents. While Jordan's Procurement Law does not allow non-competitive bidding, it does permit a government agency to pursue a selective tendering process. The law gives the tender-issuing department, as well as review committees at the Central Tenders and General Supplies Departments, the right to accept or reject any bid while withholding information on its decisions.

Customs Procedures: Cumbersome customs procedures continue to undermine Jordan's business and investment climate. Overlapping areas of authority and difficult clearance procedures remain in place. Actual appraisal and tariff assessment practices are frequently arbitrary and may even differ from written regulations. Customs officers often make discretionary decisions about tariff and tax applications when regulations and instructions conflict or lack specificity. Delays in clearing customs are routine.

7. Export Subsidies Policies

The central bank runs a low interest financing facility to support eligible exports, including all agricultural and manufactured exports with domestic value-added of not less than 25 percent. The Jordan Loan Guarantee Corporation offers soft loans to small scale, export-oriented projects in industry, handicrafts and agriculture. The Export and Finance Bank, a public shareholding corporation, provides commercial financing and loan guarantees to Jordanian exporters.

8. Protection of U.S. Intellectual Property

Jordan is in the process of joining the World Trade Organization and as a new member will be obligated to meet requirements of the Trade Related Aspects of Intellectual Property (TRIPS) Agreement upon accession. Jordan is a member of the World Intellectual Property Organization (WIPO), and is a signatory to the Paris Convention for the Protection of Industrial Property.

In April 1998, the U.S. Trade Representative included Jordan on the "Special 301" Watch List for inadequate protection of intellectual property, and Jordan will undergo an out-of-cycle review in December of 1998. The government has established an action plan that sets a schedule for Intellectual Property (IP) reforms over the next three years. At present, Jordan's IP laws are not up to international standards. As a result, investment in intellectual property-intensive industry is dampened, new products are withheld from the Jordanian market, and U.S. companies lose millions of dollars in sales to pirated products.

In the area of copyrights, amendments to Jordan's Copyright Law were passed in October 1998 by parliament and provide an improved framework for protection of foreign copyrights. This law still appears to fall short of TRIPS requirements, particularly in areas of point of attachment, formalities, and compulsory licensing. Until Jordan joins the Berne Convention, U.S. works will not be afforded any protection under the Jordanian Copyright Law.

For trademarks, amendments to the existing trademark law have been completed and will likely be submitted for parliamentary approval by early 1999. To date, there is no evidence that Jordan has taken steps to reduce the 100 percent piracy rate for trademarked goods.

The government released a draft patent law for public comment in early November 1998. Currently, unauthorized copying of pharmaceutical products results in tens of millions of dollars in losses to U.S. and European pharmaceutical firms. The draft patent law appears to fall short of TRIPS requirements in the area of compulsory licensing, and would permit both research and development efforts by non-right holders before the expiration of patent protection as well as parallel import of patented pharmaceutical products.

Lastly in the area of new technologies, computer software piracy is rampant in Jordan's small but growing computer market. Jordan is expected to issue a decree requiring government

ministries to use licensed software by the end of the year. However, there is no legislation to protect plant varieties, semiconductor layout design, trade secrets and industrial design.

9. *Worker Rights*

a. The Right of Association: Workers in the private sector and some state-owned companies have the right to establish and join unions. Between 15 to 30 percent of the Jordanian work force is unionized. Unions represent their membership in dealing with issues such as wages, working conditions and worker layoffs. Seventeen unions make up the General Federation of Jordanian Trade Unions (GFJTU). The GFJTU actively participates in the International Labor Organization.

b. The Right to Organize and Bargain Collectively: Unions have, and exercise, the right to bargain collectively. GFJTU member unions regularly engage in collective bargaining with employers. Negotiations cover a wide range of issues, including salaries, safety standards, working conditions and health and life insurance. If a union is unable to reach agreement with an employer, the dispute is referred to the Ministry of Labor for arbitration. If the ministry fails to act within two weeks, the union may strike.

c. Prohibition of Forced or Compulsory Labor: Compulsory labor is forbidden by the Jordanian Constitution, except in a state of emergency such as war or natural disaster.

d. Minimum Age for Employment of Children: Children under age 16 are not permitted to work except in the case of professional apprentices. Under an apprentice program, students may leave the standard educational track and begin part-time training (up to 6 hours a day) at age 13.

e. Acceptable Conditions of Work: Jordan's workers are protected by a comprehensive labor code, enforced by Ministry of Labor inspectors. There is no comprehensive minimum wage in Jordan. The government maintains and periodically adjusts a minimum wage schedule of various trades, based on recommendations of an advisory panel consisting of representatives of workers, employers and the government. Maximum working hours are 48 per week, with the exception of hotel, bar, restaurant and movie theater employees, who may work up to 54 hours. Jordan has a Workers Compensation Law and a social security system which cover companies with more than five employees.

f. Rights in Sectors with U.S. Investment: Worker rights in sectors with U.S. investment do not differ from those in other sectors of the Jordanian economy.

**Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad
on an Historical Cost Basis -- 1997**

(Millions of U.S. Dollars)

Category	Amount
Petroleum	-1
Total Manufacturing	0
Food & Kindred Products	0
Chemicals & Allied Products	0
Primary & Fabricated Metals	0
Industrial Machinery and Equipment	0
Electric & Electronic Equipment	0
Transportation Equipment	0
Other Manufacturing	0
Wholesale Trade	0
Banking	(1)
Finance/Insurance/Real Estate	15
Services	0
Other Industries	0
TOTAL ALL INDUSTRIES	(1)

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.